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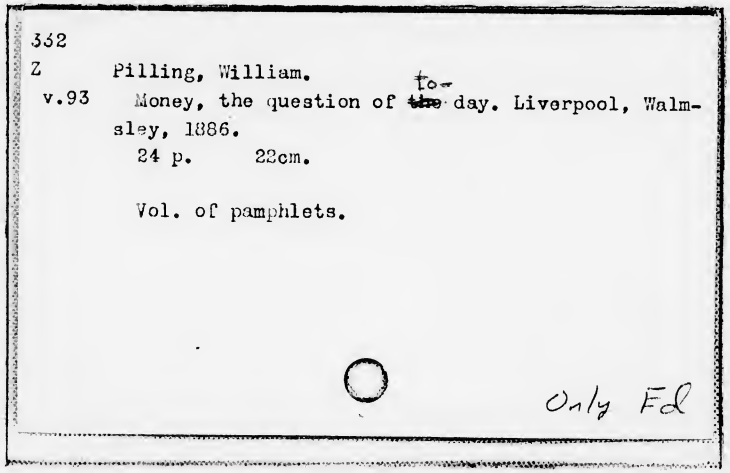

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MONEY:

THE QUESTION OF TO-DAY.

BY

WILLIAM PILLING.

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LIVERPOOL: GILBERT G. WALMSLEY, 50, LORD STREET.
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1886.

MONEY.

THE exchange of commodities between man and man is one of the necessities of human existence. Barter is the primitive and natural mode of effecting this exchange. A man who has a superfluity of one commodity and has need of another, searches for some man who has a superfluity of this needed commodity, and effects an exchange by which both are benefited. But the man possessing this needed commodity in superfluity may not require the commodity which the first man has to offer, while a third man may require some of each of these commodities, and has some third commodity of his own to offer. Hence arises the necessity for some medium of exchange, some commodity which all men are willing to receive in exchange for any commodity of which they may have a superfluity. From the earliest period of which history gives us any reliable account, we hear of the employment of some medium of exchange.

Any commodity the value of which is generally appreciated, may serve as a medium of exchange, but all commodities are not equally efficient as such. The commodity adopted as a medium of exchange has to pass frequently from hand to hand; it must, therefore, be easily portable, that is, of small bulk in comparison with its value in relation to other commodities, and it must not be liable to suffer serious deterioration by such transfer from hand to hand or by lapse of time. Thus gold and silver have from time immemorial been adopted as media of exchange.

The exchange value of every metal depends upon weight and quality; thus, one of the natural functions of Government is to stamp pieces of metal as a guarantee of weight and quality. Pieces of metal so stamped are known as coins, and pass readily from hand to hand in exchange for other commodities. Coins of different values are stamped by each Government in order to facilitate exchanges, but each class of coin has one fixed value in relation to the other coins issuing from the same mint. The law which establishes the nominal value of a coin, at the same time makes it legal tender for that nominal value; that is, that within the jurisdiction of this law every man is obliged to receive it at that nominal value when proffered in payment of any debt which may be owing to him.

Coins which are not legal tender are in many countries in use as media of exchange, their value constantly varying with the variations of demand and supply. Thus, the English sovereign, which is legal tender in many other countries besides the United Kingdom, is in those countries current at one fixed nominal value in the currency of each such country, but in France and Germany, where it is not legal tender, its nominal value varies with the rate of exchange. Thus also, the American silver dollar, which is legal tender for one hundred cents, is current at that nominal value throughout the United States, while the trade dollar issued by the same mint, of equal quality and of greater weight, is current only at such value as any man to whom it may be paid may choose to receive it, because it is not legal tender; the present value of this trade dollar is about eighty cents.

The value of any commodity is the amount of other commodities for which it is either directly or indirectly exchangeable. This value is the *purchasing power* of that commodity. This purchasing power is regulated by the great law of demand and supply. If there arise a

demand for any one commodity in excess of the supply, men will give larger quantities of other commodities in exchange for it; that is, its purchasing power becomes augmented by increased demand, and *vice versa*.

In every country in which coined metals are legal tender for value, these coins form the measure of value of all other commodities, and the amount of other commodities for which they are exchangeable establishes the purchasing power of these coins. Therefore, the coins themselves being a commodity, the respective values of these coins and of other commodities act and re-act upon each other, and any change in the nominal value of any commodity, as measured in coin, may arise either from an actual change in the value of the commodity itself, or from a change in the purchasing power of the coin by which this value is measured.

Coins which are not legal tender have currency solely by reason of their purchasing power as metals, and their value as measured in coins which are legal tender varies continually. Thus the law which makes certain specified coins legal tender, endows them with one special quality which is not possessed by any other commodity. By the possession of this quality they become MONEY.

Money is legal tender for value.

The demand for gold and silver for coinage is at the present day greater than the demand for either of these metals for any other purpose, which demand gives them a value much in excess of what they would otherwise possess. This demand and consequent increase in value is created by law. Law could equally bestow created value upon any other commodity by making it legal tender for value. If any commodity to which such value be given were more portable than gold, and were produceable by less expenditure of labour, it would be more efficient as a medium of exchange, and would also economise an enormous amount of realised capital which is to-day sunk in the production of metal for coinage.

Hence logically arises the invention and use of paper money.

Money may consist of one metal only, or of two or more metals in combination, or of paper, or of paper and one or more metals in combination. Of whatever it be composed, money is a distinct commodity, which has uses and properties peculiar to itself.

The use of money consists in its being the medium of transfers of value in all those relations between man and man in which value is created and transferred. Money represents the amount of value which is transferred. The amount of money in actual circulation should, therefore, theoretically, be equal in value at any given time to the amount of the value of such transfers during or at that time, but such is not practically the case. A variety of contrivances are in use by which great economy is effected in the employment of money. Credit, by which a transfer of value on one day is balanced by a promised re-transfer on some future day; bills of exchange, cheques, and many other devices of the modern system of banking; barter, by which one commodity is exchanged for another directly; and convertible paper money, by the use of which real money is enabled to perform two or three times its own proportion of work.

The amount of transfers of value is subject to continual variation, and the amount of money required to represent these transfers also varies, as in times of commercial distrust or panic that economy of money which is effected by the use of cheques and bills of exchange is seriously diminished. It is thus difficult to maintain one exact proportion between the amount of money in circulation and the amount of values transferred contemporaneously; but the value of money in circulation and the value of the transfers represented by this money are kept in equilibrium by the action of the great economic law of demand and supply, which causes the value of money, as of that of any other commodity, to rise or fall as the demand for it falls short of or exceeds the supply.

In ordinary commercial language, money is said to be in demand when interest is high, and "a drug in the market" when interest is low. Variation in the rate of interest has nothing to do with the value, that is, the purchasing power of money. Interest paid for the use of money is analogous in its nature to rent which is paid for the use of land. The intrinsic value of agricultural land consists in the amount of saleable produce obtainable from it by cropping; its renting value depends upon the money value of this produce, less the cost of its production and the expense of conveying it to the consumer. Thus, two farms situate in different counties or countries may be of equal intrinsic value, but may yield very different rentals. It is the same with money; the interest obtainable for the use of money depends upon the profit which may be made by the use of it. A fall in the value of money causes a rise in the level of prices, increases the margin of profit, and stimulates trade; a rise in the value of money lowers the level of prices, contracts or extinguishes the margin of profit, and produces commercial stagnation. Thus, a long continuance of high rates of interest is a sure sign that the intrinsic value of money is falling; a long continuance of low rates of interest is an equally sure sign that the intrinsic value of money is rising. A temporary rise or fall in the rate of interest may proceed from transient causes which have nothing to do with the value of money.

The value of money, that is, its purchasing power, depends upon the proportion which the amount of money in circulation bears to concurrent transfers of value, for these transfers constitute the demand for money as the medium of transfer. If these transfers increase, the value of money which represents them must increase also. This increase can only come in one of two ways; either the amount of money in circulation may increase in like proportion, or the value of the same amount, and of each separate unit in this amount, must increase.

The population of the world is steadily increasing, trade and commerce are expanding; the result is an increase in transfers of value; therefore, we require a steady increase in the amount of money which represents these transfers, or the value of money must increase and produce commercial stagnation. Temporary depression of trade may proceed from many causes, transient only in their action, but when depression arises from the inadequacy of the money in circulation to represent at the present ratio contemporaneous transfers of value, this depression is in danger of becoming permanent, for the equilibrium between the value of these transfers and the value of the currency by which they are represented, can then only be maintained by a lowering of the level of prices in proportion to the expansion of trade. This lowering of the level of prices is of benefit to some members of the community, but it annihilates the profits of trade, and must eventuate, if continued, in the transference of the channels of commerce to countries where the medium of exchange is of such nature as will permit of expansion in answer to any demand upon it.

The Currency Acts of the year 1816 established gold as the basis of the monetary system of Great Britain; by these Acts, supplemented by the Bank Act of 1844, gold and money were made synonymous terms throughout the United Kingdom, the supply of money being made absolutely dependent upon the supply of gold. With the exception of Portugal, no other country adopted this system until within the last fifteen years, but during these years the use of gold as money has greatly extended. The bi-metallic system of France has been suspended in every country in which it was by law established; thus the increased demand for money can no longer be met by the coinage of silver, while the supply of gold from the mines is falling off. Thus, while the demand for gold is abnormally increased, the supply is diminishing, the result is an increase in the purchasing power of gold, and in the

purchasing power of all money which is based upon gold, a general lowering of the level of prices, and stagnation of trade.

The estimated annual production of gold increased during the first half of this century from two millions to about ten millions pounds sterling. The gold discoveries in California and Australia then caused a rapidly progressive increase in production for about ten years, the highest point reached being estimated at fifty three millions. Since then the yield from mines and washings has shown a steady annual decrease, till the production of 1885 is estimated at only seventeen millions.

During the period of increased production France, by the working of her bi-metallic system, absorbed a large amount of gold into her currency, and learned the superiority of gold to silver as a medium of exchange. When the continued working of this system threatened to draw away this gold and supply its place with silver, she suspended the system.

When the annual production of gold was steadily declining, the German Empire attempted to remodel her currency on the mono-metallic system of Great Britain. The consequences of this step were at the time foreshadowed in a series of articles which appeared in the *Economist*; to-day we see the inevitable result.

Paper money is only of use as a medium of exchange within the jurisdiction of the law which makes it legal tender for value. Metallic money is by reason of its intrinsic value, as metal, a marketable commodity; it is, therefore, of value as a medium of exchange beyond the range of the law which makes certain specified coins legal tender in any one country. Thus remittances of gold and silver, both coined and uncoined, are extensively employed as a means of liquidating trade balances between different nations. Gold, by reason of its superior portability, is invariably preferred to silver for remittance, unless some special cause exist which renders silver preferable in spite

of the extra cost of transmission. Gold has thus come to be the chief international medium of exchange, but is not international money (which commodity does not and probably never will exist), it is simply a commodity having in every country a certain purchasing power which renders it useful for the liquidation of balances.

Gold being the chief international medium of exchange, is unquestionably the best basis for the internal currencies of all the Western nations, but for the preservation of this basis it is not requisite that each national currency be exclusively of gold. History gives us many examples, notably the "greenback" currency of the United States, which prove that if a paper currency be kept well within the amount actually required to represent contemporaneous transfers of value, while the *hiâtus* can only be supplied by gold, then this paper currency circulating under the protection of the law which makes it legal tender for value, is equally effective with gold as a medium for the transfer of value, and is generally, on account of its superior portability, preferred to gold.

The use of paper money is frequently objected to on the ground that it has no basis of value. There is no greater fallacy than this objection. Without a return to the primitive system of barter, commerce is impossible in the absence of some authorised medium of exchange. Whatever medium of exchange be used, whether it be metallic or paper, its value as money is created by the law which makes it legal tender, and it represents all concurrent transfers of value.

The value of each individual unit in any legally authorised currency bears the same proportion to the amount of concurrent transfers of value which this unit bears to the total amount of this currency in circulation, and each unit is everywhere exchangeable for value in accordance with this proportion.

Thus contemporaneous transfers of value form a most efficient and effectual guarantee for any paper

money which may represent these transfers, whether this paper money constitute the whole or a portion only of the legally established medium of exchange.

During the War for the Union, the issue of "greenbacks" was much in excess of the amount required to represent contemporaneous transfers of value in the Northern States; therefore, the purchasing power of each unit in this currency fell till it represented only its proportionate amount of these transfers.

At the close of the war, the purchasing power of the "greenback" dollar was less than forty cents gold. Peace extended the area over which it was legal tender. Government commenced to burn systematically every month a portion of these "greenbacks" received by it as revenue. The result was a steady rise in the purchasing power of the "greenback" dollar, till, after ten years of this process, the purchasing power of this paper money had risen to equality with the purchasing power of gold, both gold and "greenbacks" being equally legal tender.

When this systematic destruction of paper dollars had reduced the combined gold and paper currency to an amount which was not more than sufficient to represent concurrent transfers of value at gold ratio, then each individual unit in this combined currency represented an equal proportion of these transfers, and the value of each unit was established by the purchasing power of gold.

The burning of "greenbacks" ceased, and the amount then left, $350,000,000, which is about half the total annual revenue raised by Federal and State taxation, is still in circulation, doing more efficiently the work that would otherwise require an absorption of realised capital to the extent of three hundred and fifty millions in gold coin.

The power for evil which the use of paper money places in the hands of unscrupulous or ignorant Governments has been so frequently productive of ruinous disaster that the system itself is generally looked upon

with suspicion, and its adoption is regarded as an extreme measure, justifiable only in great national emergencies. The evil is, however, not in the system itself, but in the abuse of it. As paper money is easy to create, so also it is easy to destroy, as no appreciable amount of capital is sunk in its production, so it may be withdrawn from circulation without loss. Thus, no monetary system is so amenable to control as is a paper currency. Its adoption has been attended with disaster solely because Governments have used it as an engine for drawing forced loans from the pockets of the people, in order to supply lack of revenue arising from reckless expenditure.

The present stock of gold is totally inadequate to furnish every Western nation with a gold currency, but it is amply sufficient to form a basis for the currency of each one of them, if a portion of each currency be made to consist of paper money.

Paper money, with the aid of a "token currency" in silver and bronze, would supply all the necessities of internal trade; but, as we have seen, in order that this currency rest upon a solid gold basis, it must not suffice to represent all concurrent transfers of value; there must be a margin left for gold, which will thus establish the purchasing power of the entire currency, and will form a reserve fund for the liquidation of trade balances between nations.

Fluctuations in the value of money upset all financial calculations and destroy the basis of all statistics. During the past fifteen years the value of money has been steadily increasing, producing prolonged depression of trade, augmenting the burden of the national debt and of all other fixed liabilities, and imposing a tax upon the active workers of the community for the benefit of the wealthy. The effects of this increase in the value of money have been most disastrous to tenant-farmers throughout the United Kingdom, whose losses from foreign competition fully absorb every moderate reduction of rental.

This increase in the value of money, and consequent depression of trade, is seen only in those countries which have adopted gold as the basis of their currencies. In these countries, fluctuations in the value of money can only be prevented by the adoption of means to maintain the purchasing power of gold at one uniform level.

The British Empire, with its dependencies, comprises about one-fourth the population of the globe. Any provisions for securing economy in the use of gold by this one-fourth, would have great effect in controlling the value of money; but if similar measures were not adopted by other powers, their chief effect would be to provide gold for the use of the remaining three-fourths, who, by waste or by injudicious legislation, might paralyse the beneficial effects of these provisions. It is, therefore, most essential that the preliminary to any attempt at control be the appointment of an International Monetary Convention, which will secure the co-operation of all nations in this work, in which all are equally interested.

The first work of this Convention would be to establish a "Standard of Value," so as to have some point upon which to base all calculations.

Much has been written and talked of the comparative merits of the "Single Standard" and the "Double Standard." All such discussion is based on a misuse of terms. Gold and silver, either singly or in combination, have been used as changeable measures of value since time immemorial; but no variable measure can rightly be spoken of as a "Standard," which, whether it be of value, of length, or of weight, must in its nature be immutable, or it is no "Standard." Immutable standards of length and of weight are already established in every civilised country. The establishment of a standard of value is a much more difficult matter.

Credit, land, labour, gold, silver, wheat, iron, copper, textile fabrics, &c., &c., are all saleable commodities, whose value is dependent upon the proportion of supply

to concurrent demand; both supply and demand constantly vary in regard to each and to all of them. Of these commodities, probably labour and wheat are those least subject to variation in value, as they, in the United Kingdom at least, form the basis of all other values; but they are subject to rapid changes in value, which are never permanent. Gold is less subject to rapid change in value, but history tells us of very great variations in value, which have been of slow development. Thus, no one of these, and no other saleable commodity, can ever form a reliable "Standard of Value."

The late Mr. Newmarch devised a "Standard of Value,' styled by him the "Index Number," by taking the average values of twenty-two leading commodities during the six years from 1845 to 1850—the six years which preceded the gold discoveries in California and Australia. Each average value he set down as 100 in his 'Index," the total "Index Number" for these six years being thus 2,200. In order to compare that period with any succeeding year, he added to or substracted from 100 the percentage of the average rise or fall in price of each commodity during that year, as compared with the average price of those six years, the result forming the "Index Number" of each commodity for that year; then, adding these results together, he obtained the total "Index Number" of that year, which showed the average rise or fall in the level of prices of these commodities.

Thus, in the year 1866, when the effects of the unusual supply of gold from mines, supplemented by the effects of the War for the Union which added the gold coinage of the United States to this augmented supply, had abnormally raised the level of prices in Great Britain, the "Index Number" stood at 3,564. In June, 1884, when increase in population and commerce, the resumption of specie payments by the United States, Italy, and some minor countries, and a considerable extension of the

mono-metallic monetary system of Great Britain, had absorbed the surplus stock of gold, the "Index Number" was 2,182, showing that the level of prices had fallen below the average for the six years comprised in the "Initial Number."

These prices are measured in gold, of which the purchasing power varies as the proportion of supply to concurrent demand varies; thus this system gives us a monetary barometer whose records during forty years are fairly in keeping with the lessons of contemporaneous history, but it cannot be accepted as a perfect "Standard of Value."

Of the twenty-two commodities selected by Mr. Newmarch for his "Index," very few made an equal demand upon the supply of money as they were sold and purchased, yet all bear like proportions to each other in his "Index." Credit is a saleable commodity, for which there is an enormous demand in England, yet six thousand millions pass through the Bankers' Clearing House of London annually without any actual transfer of money, while labour is almost invariably paid for in coin. Thus transfers of credit may double in amount with slight increase in the demand for money, but a small increase in the amount transferred as wages for labour will immediately cause an equivalent increase in the demand for money. Neither credit nor labour has any part in his "Index;" neither has land.

The value of urban and suburban lands depends chiefly upon increase in population; therefore lands so occupied should have no place in an "Index Standard of Value," but the renting value of agricultural land should form an important item in any such "Standard," as any economy which may be effected in the production of commodities of general utility has a tendency to raise the renting value of land, and so to compensate in some measure the tendency which such economies have to lower the wages of labour.

The most important item in such a "Standard of Value" must be labour, which makes a greater demand upon the supply of money than any other saleable commodity. After labour should come land, grain, and meat; then the principal articles of commerce, each having value in the "Initial Index" in proportion to the demand made by it upon the supply of money. This "Initial Index" should be subject to periodical revision, say once in ten years, when the proportionate powers of each several item will probably require readjustment.

Change in the value of any staple commodity re-acts upon the values of all others. A fall in the value of one commodity sets free a certain amount of money which may be expended in the purchase of others, inducing an increased demand and a rise in value. A rise in the value of one commodity causes an absorption of money which would have been available for the purchase of others, thus reducing the demand for them, and causing a fall in value. Or if this fall or rise in the value of any one commodity produce an increased or diminished demand for it, it should then increase or decrease its power in the "Standard." Thus the general average of values can suffer little change, and a steady rise in the "Index Number" would invariably follow and record any undue increase in the supply of money, while a fall in this number must indicate a contraction of the currency.

If such a "Standard of Value" be adopted by the International Monetary Convention, one number should be established as the universal initial number for all the world, but the component parts of this number should be different in every nation, commodities being chosen, and their relative proportions in this number being established, according to the demand they make in each country upon the supply of money.

It would not be necessary for every nation to adopt this "Standard of Value." London is at present the chief monetary centre of the world; if gold be there kept

at one invariable value, any country having direct commercial relations with England could regulate her own currency by watching the rise and fall of exchange on London.

The International Monetary Convention should establish a central bureau at some one of the financial centres of Europe, and should hold one general meeting annually of delegates from all nations. Having adopted some "Standard of Value," its principal work would be to keep a close watch upon all causes which influence the value of money, and to record their effects in each country upon this "Standard of Value." The Convention should annually publish statistics of the amount of gold and silver coined, and of paper money issued, during the preceding year in all the countries represented; of the exports and imports of bullion from and into each such country; estimates of the production of gold and silver all the world over; and monthly tables of the level of the "Standard of Value" in each country in which it is adopted.

The proposed Convention could have no authoritative force, but every nation would do well to give due weight to its *recommendations*, making such modifications in its monetary system, when requisite, as shall tend to prevent any undue demand upon the chief international medium of exchange.

The great monetary necessity of the present day is to economise the use of gold, so as to prevent any further increase in its purchasing power, which is now greater than at any previous period in this century.

Economy in the use of gold is achieved in many different ways. In Great Britain, by eighteen millions pounds sterling in "Notes," issued by various banks against Government securities, and by scientific banking, local clearing-houses, and the general use of cheques, a system which is making way in other countries, but is in no other so well established. In several countries, by a large coinage of silver, as in France, where half the

metallic reserve of the Bank of France consists of silver. In other countries, by the use of a convertible paper currency on a gold basis, free from the rigid restrictions which the Bank Act of 1844 imposes upon the paper currency of the United Kingdom. It is, however, unquestionable that the system by which the greatest economy can be achieved in the use of gold is that of paper money.

When the supply of gold falls short of the demand, any rise in the value of gold can be prevented by meeting this demand by an issue of paper money. When the supply of gold is redundant, paper money withdrawn from circulation will cause an increase in the demand for gold, and so prevent a fall in value. In this way, gold may be made not only the chief international medium of exchange for all the world, but the basis of the currency of every nation. Our present supply of gold can be rendered ample for all the requirements of a rapidly-expanding commerce; and the purchasing power of gold may be maintained at par with any "Standard of Value" which may be adopted.

There are two means by which further economy in the use of gold may be achieved in the United Kingdom, without in any way endangering the gold basis of the currency established in the year 1816.

First.—The coinage of small pieces of money is attended with more expense than is that of larger ones, and in use, small coins suffer greater loss by abrasion; therefore, considerable economy may be achieved by withdrawing the ten-shilling gold piece from circulation and re-coining the metal into a larger gold piece of the value of fifty shillings. This new coin would be of very convenient size, and would speedily become popular. It might be styled a "Gold Victoria" or an "Imperial." The *hiatus* in the fractional currency, produced by the withdrawal of the half-sovereign, would require to be filled up by an equivalent coinage of florins of the

"token currency," and the profit made by the Mint on this coinage would probably balance the loss inevitable on the re-coinage of the ten-shilling piece.

This measure would produce a considerable economy in the use of gold, and would add a large amount to the circulating medium of the United Kingdom, obviating to that extent the present contraction in the currency, the effects of which are so disastrously felt; but it would not suffice for the chief requirement of the present day; it would not add in any way to the power of Government to control the value of money. In the addition to the circulating medium of the country of an inconvertible paper currency made legal tender by Act of Parliament, we have the only means whereby the supply of money can be regulated without destroying the gold basis of our monetary system.

This paper currency should consist of "notes," on which the inscription should be analogous to the following:—

"The Government of the United Kingdom of Great Britain and Ireland recognises this Note as *One Pound Sterling*."

Supposing the International Monetary Convention to have established a "Standard of Value," of which the initial number is 5,000, the fall of the standard below that number would show a scarcity of money, which should be remedied by a gradual issue of "notes." If the standard rise above that number, the issue of "notes" should be suspended, and if the rise continue, "notes" should be gradually withdrawn from circulation until the contraction of the currency reduce the standard to its normal state.

In order that this legal-tender currency enter into the circulation through ordinary commercial channels, and, though circulating by authority of Parliament, may be in no respect a loan levied as a source of revenue, it can only be issued through the intervention of one or

more large banking establishments, under the supervision of Government.

The following is a sketch of the way in which this currency may be added to the circulation, and may be used as a means of increasing or diminishing the supply of money as circumstances may render requisite:—

1. The Bank of England might be authorised to establish a second Issue Department, for the issue and control of inconvertible "notes," made legal tender at their nominal value by Act of Parliament.
2. The Board of Directors of the Bank of England should, at each weekly meeting, decide the level of the "Standard of Value" for that week, and should publish the same with their weekly account.
3. Whenever the "Index Number" fell below 5,000, this second issue department should hand over to the banking department, on the Monday next succeeding, the sum of one hundred thousand pounds in "notes," which the Bank would employ as though it were a part of its own capital.
4. When the "Index Number" was declared by the Board of Directors to have again reached 5,000, the department should suspend the issue of these "notes."
5. When the "Index Number" stood at over 5,300, the banking department should, on the Monday next ensuing, return one hundred thousand pounds in "notes" to the issue department.
6. When the "Index Number" stood at over 5,500, the banking department should, on the Monday next ensuing, return two hundred thousand pounds in "notes" to the issue department.
7. Any of these "notes" held by the Bank of England, or by any other bank, should be included in their reserve in their periodical statements of account; but no banks which have the right of emission should be permitted to hold any such "notes" as security against their own issues, their obligation being to redeem their notes in gold on presentation.
8. The Bank of England should keep a special reserve in Government securities, bearing interest at 3 per cent. per annum, against this issue of legal-tender notes, the nominal value of which reserve should at no time be less than 10 per cent. in excess of the amount of the issue.
9. The amount of the issue should appear in the weekly account of the Bank as a loan from Government, the latter having lien upon the aforesaid securities to the amount of this loan.
10. The Bank of England should pay an annual tax of 2 per cent. on the average amount of these legal-tender notes issued by the department.

The adoption of the bi-metallic system is proposed by some as a remedy for the present depression in trade. There can be no doubt that a large coinage of silver would have a most beneficial effect upon trade by arresting the present contraction of the currency, but the adoption of the system would be attended with great dangers.

It would give any strong financial ring the power to substitute silver for gold whenever they pleased.

Experience has demonstrated the superiority of gold to silver as a medium of exchange. Hence the suspension of the bi-metallic system by the Latin League; hence, also, the unprecedented storage of coined silver in the vaults of the National Treasury at Washington, to the amount of over three hundred millions of dollars. Thus, the substitution of silver for gold in the currency of any one nation might be a very profitable speculation.

Bi-metallism, equally with mono-metallism, places the currency of the country which adopts it beyond the control of Executive Government; the supply of money in either case depends upon the results of mining, the most uncertain of all industries.

No reliance can be placed upon published reports of the unlimited supply of silver from the Rocky Mountains, but these accounts may be true. The adoption of bi-metallism would stimulate the production of silver, and would almost certainly cause an inflation of the currency in all nations whose currencies are at present based upon gold. This inflation and consequent rise in the level of prices would check the production of gold. Australians of experience estimate the cost of the gold produced in Australasia, during the twenty years ending in 1873, at twenty-five shillings per pound sterling. Gold washing was a lottery, in which there were a few prizes and many blanks. It is only of late years, when the purchasing power of gold has risen considerably, that quartz crushing has been a fairly remunerative business; a rise in the level of prices would absorb all profit and annihilate this source of supply.

The price of silver, as measured by gold, has fallen during the past fifteen years twenty-five per cent. This is about the average per centage of the fall in the gold-value of general commodities during the same period. We have, therefore, no reason to believe that the purchasing power of silver has experienced any material change; and we have every reason to believe that the difficulties of the Indian Government are the natural result of the abortive attempt to introduce a bi-metallic currency into India.

The adoption of the bi-metallic system by the Western nations would increase the demand for silver, and would, unless the production were enormously increased, cause a rise in the purchasing power of this metal. A rise in the purchasing power of silver would

have a most prejudicial effect upon the prosperity, peace, and progress of India.

The establishment by human law of a fixed relative value between two distinct commodities, which have each a natural value of their own, is an interference with economic law. Such interference is always attended with great danger. The laws of nature have a habit of vindicating their own authority.

The addition to a gold coinage of a paper currency would be attended with no such dangers. If the system were abused by any one nation, the results would recoil upon itself alone.

The unexplored gold-fields of New Guinea and Central Africa may, before many years, largely augment the stock of gold available for coinage. The withdrawal of paper money from circulation, and the re-coinage of the half-sovereign, would then be means available for the prevention of a second inflation of the currency, the re-action from which is attended with such disastrous consequences.

It would be most unwise for the United Kingdom to attempt single-handed to control the value of money; an absolute preliminary must be a mutual understanding between all the great powers, to which effect must be given by the establishment of a permanent International Monetary Convention.

By such union of all nations can alone be secured an equilibrium between the demand for, and the supply of, gold, which will then become a medium of exchange of one unchanging value, suitable as the measure of value of all other commodities, and as the basis of all financial calculations and provisions. So only can a long succession of disasters be averted, and can men once more and for all time put trust in such lessons from the past, and in such prognostications of the future, as may be drawn from statistics, for all calculations are fallacious, all foretellings are delusion, when the basis of them all is an ever-shifting

quicksand, upon which men are ever building, and upon which they must build; for the sinews of all human enterprise, the sap of the tree of all national life, has ever been, and ever must be, that one commodity which in itself represents all others—MONEY.

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